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AUTHOR Winkfield, Patricia Worthy
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ABSTRACT

While the Federal Government has been involved in the care of the elderly since the depression, a comprehensive and unified national retirement policy has never been established. Federal programs for the aged have avoided cutbacks, but adaptations in present retirement policy are required to meet the needs of young and old alike. Although public policy gives the elderly the right to work, it provides incentives for those who leave the labor force at or before age 65. The major criticism of present retirement policy is that it discourages labor force participation of older persons through economic disadvantages for continued work and mandatory retirement regulations. The Age Discrimination in Employment Act has been amended to raise the minimum retirement age from 65 to 70. Changes have also been enacted in the Social Security system. Vocational educators can take action to enhance the participation of older persons in the labor force by expanding public awareness of the needs and abilities of the elderly, examining the recruitment of elderly persons, obtaining training to implement effective vocational education programs, examining attitudes toward older people, reviewing the potential of programs to serve the elderly, and assisting older persons to remain productive in their retirement. (YLB)

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OVERVIEW

ERIC DIGEST NO. 38

Clearinghouse on Adult, Career, and Vocational Education

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RETIREMENT POLICY

What Is the Issue Surrounding Retirement Policy?

The Federal Government has been involved in the care of the elderly since the Great Depression. Programs and their resulting supportive services affecting the elderly have concentrated on improving health status, reducing poverty, and ending discrimination. While the programs have been successful in furthering these goals, a comprehensive and unified retirement policy has never been established. Current retirement policy is based upon Federal statutes and programs dated as early as 1935. Policies regarding a single issue are sometimes inconsistent and contradictory across the separate pieces of legislation. National retirement policies have not been developed to keep pace with changing demographic and economic conditions.

Economic conditions and a changing political climate have caused a reduction in the level of support for many Federal programs. Federal programs for the aged have been able to avoid cutbacks, but it is uncertain how long these programs can continue to maintain a high level of support. The following facts emphasize the need for adaptations in present retirement policy to meet the needs of young and old alike.

- Between now and the end of the century, the population 65 and over is expected to increase by 40 percent.
- By the year 2030, 1 in every 5 Americans will be 65 or older.
- By 2030, the ratio of workers to retired citizens is expected to be three to one as opposed to the rate today of six to one.
- A smaller base of workers will be required to maintain and possibly increase the welfare level of a growing elderly population.
- Over 30 percent of total Federal expenditures are spent on programs and support services for the elderly. This figure is expected to rise to 40 percent in the next century.

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What Effects Have Retirement Policies Had on the Employment Patterns of Older Persons?

The Social Security Act of 1935 has provided the foundation for retirement policy in the United States. Social Security currently constitutes more than 40 percent of all Government expenditures for social welfare. A number of Federal programs have evolved from the Social Security Act to address the needs of the elderly for income support, health care, housing, services required for daily living, and rights to employment.

Although public policy gives the elderly the right to work, it provides incentives to leave the labor force at or before age 65 in order to provide jobs for younger workers.

- Social Security allows beneficiaries to continue working without penalty only as long as earnings do not exceed specified limits. The limits are set at levels that are less than 40 percent of the earnings of a full-time worker earning the average wage.
- Tax rates can rise to 96 percent for persons who continue to work full-time beyond the mandatory age of retirement and earn above the exempt amount.
- Social Security provides actuarially reduced benefits to persons who retire early.[1] Social Security benefits are not increased a comparable amount for persons who delay retirement beyond the normal retirement.
- Tax provisions provide an incentive for the elderly to substitute nonemployment income for earnings by allowing the exemption of transfer income (Social Security and SSI) and property income (via the Retirement Income Tax Credits).
- While mandatory retirement of Federal employees is prohibited at any age, non-Federal employees (who comprise the greater part of the work force) are required to retire by the age of 70.

Several empirical research studies have been conducted to study the relationship between work behavior and retirement policy. Most of the studies have found that Social Security has caused some reductions in the work effort of older persons. However, the estimated size of the effect of Social Security differs with the dependent variables used from study to study. The research studies have centered on the effects of Social Security on labor supply and most have not examined the area of private pensions, but those that have found that retirement is affected by the availability of pension plans.

There is evidence that pension plan regulations, similar to Social Security, tend to discourage work at older ages. Although the data needed to measure the overall effect of pensions on work behavior have not been collected, the following facts provide insight into current employment patterns:

- In 1980, nearly one-half of all men aged 63 were no longer in the labor force.

[1] Supplementary Security Income (SSI) compensates for the actuarial reduction among low-income workers.

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- From 1950 to 1980, the labor force participation rate of women from age 55 to 70 steadily increased.
- Between 1950 and 1980, the difference in labor force participation rates for men and women aged 63, 65, 68, and 70 narrowed from 60.1, 55.4, 46.3, and 41.9 to 23.9, 14.4, 9.6, and 12.3 percent, respectively.

The data presented indicate that increases in work for women outside of the home and decreases in labor force participation of men have resulted in a convergence of work effort of older men and women.

The major criticism of present retirement policy is that it discourages labor force participation of older persons through economic disadvantages for continued work and mandatory retirement regulations. Although these drawbacks are usually discussed in relationship to Social Security, they are also present in private pension plans.

The 1978 Amendments to the Age Discrimination in Employment Act revised the minimum age at which most workers can be forced to retire from age 65 to 70. Although this was an attempt to allow older persons to remain in the work force for a longer period of time, it is expected to have a minimal effect on the work effort of men aged 65 and older.

In early studies on work behavior of older persons, health problems were often cited as reasons for the limited participation of the elderly in the work force. It is now believed that the emphasis on health, although significant in many cases, was overstated.

Several changes have been enacted in the Social Security System as a result of recommendations made by the National Commission on Social Security Reform. These changes include—

- increasing the age of eligibility for unreduced retirement benefits from age 65 to 67 in the year 2000,
- changing the annual earnings test in 1990 whereby $1.00 in benefits will be withheld for each $3.00 of earnings above the annual exempt amount for people 65 and over rather than $1.00 withheld for every $2.00 earned,
- requiring Social Security coverage of employees of nonprofit organizations as of January 1, 1984,
- providing Social Security coverage for Federal employees hired after December 31, 1983.

All of the revisions are described in detail in the publication *Social Security Strengthened: 1983 Social Security Amendments*, prepared by the U.S. Department of Health and Human Services.

How Can Vocational Educators Be More Responsive to the Educational Planning and Employment Needs of Older Persons?

The number of people in the United States aged 65 and over is expected to increase from 25 million in 1981 to over 31 million during the next 10 years. There is a general belief that older people want to leave work; however, many would prefer to delay retirement or return to the work force after retirement due to such factors as increased longevity, better health, uncertain economic conditions, more interesting work opportunities, and increased use of alternative work patterns such as flextime and part-time employment.

Although adults and the unemployed are specifically mentioned in the Vocational Education Amendments of 1976, the needs of older persons to upgrade their job skills are not addressed. However, upgrading and retraining of the elderly can result in reduced Federal transfer payments, greater supply of trained older workers as the pool of younger workers diminishes, and increased opportunity for continued growth and change for the elderly throughout their life span.

Vocational educators can take deliberate action to enhance the participation of older persons in the labor force by—

- joining other disciplines in an effort to expand public awareness of the needs and abilities of the elderly,
- examining the realities of recruiting elderly persons into vocational education programs,
- obtaining training for themselves in order to design and implement effective vocational education programs,
- examining their attitudes toward older people,
- reviewing the potential of their programs to serve the elderly,
- assisting older persons to remain productive in their retirement.

REFERENCES

This ERIC Digest is based on the following publication:

Retirement Policy Planning for Change. Information Series no. 242, edited by Kathryn H. Anderson. Columbus: The ERIC Clearinghouse on Adult, Career, and Vocational Education, The National Center for Research in Vocational Education, The Ohio State University, 1982. (ERIC Document Reproduction Service No. ED 220 724).

Additional reference:

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FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD · COLUMBUS, OHIO 43210